

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 7448**

**BILL NUMBER: SB 633**

**DATE PREPARED:** Jan 20, 1999

**BILL AMENDED:**

**SUBJECT:** Education tax credits.

**FISCAL ANALYST:** Diane Powers

**PHONE NUMBER:** 232-9853

**FUNDS AFFECTED: X GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State

**Summary of Legislation:** This bill provides adjusted gross income tax refundable credits for expenses incurred by a taxpayer and paid to others for dependents who receive academic instruction in a grade from kindergarten through grade 12 or the equivalent for: (1) textbooks and instructional materials; and (2) academic instruction approved by the Department of Education in grade or age appropriate curricula outside a regular school year or school day and in core curriculum areas. This bill also provides an adjusted gross income tax credit for a part of the expense paid by classroom teachers for professional development. The Department of Education is required to develop a list of academic instruction programs for dependents and professional development programs for classroom teachers who are approved for tax credit purposes.

**Effective Date:** January 1, 1999 (retroactive).

**Explanation of State Expenditures:** There will be some additional expenses to the Department of Revenue and the Department of Education to administer these new tax credits. The Department of Revenue will need to change tax forms, instructions and computer programs to accommodate these credits. The Department of Education (DOE) is required to develop criteria and establish a list of programs that will qualify for academic instruction outside of a regular school year or school day and classroom teacher professional development.

**Explanation of State Revenues:** *Textbooks Credit:* This bill establishes a income tax credit for textbooks. Expenses for textbooks and instructional materials are limited to \$100 per dependent or \$200 per family. Based on the DOE projections for school enrollments, it is estimated that there will be 987,688 public children and 104,418 private school children enrolled in kindergarten through the 12th grade for the 1999-2000 school year. It is also estimated that approximately 220,000 public school children will receive free textbooks, so these families would not be eligible for the tax credit. DOE reports that the average textbook expense is \$60 per public school student. Therefore the average estimated expense for a public school family/taxpayer would be \$120 which would be eligible for this credit. It is assumed that private school families would be eligible for the maximum \$200 credit per family. The estimated cost of this textbook credit

would be approximately \$56.5 M in FY 2000 and \$56.7 M in FY 2001.

*Academic Instruction Tax Credit:* This bill establishes an income tax credit for certain educational expenses incurred for a dependent in a public or nonpublic school. Expenses must be for a dependent enrolled in kindergarten through grade 12. Qualified educational expenses are defined as fees for academic instruction in a grade or age appropriate curricula outside of a regular school year or school day in the core curriculum areas of language arts, mathematics, science, or social studies.

For taxpayers who have income under \$35,000, the tax credit is limited to the lesser of the amount of qualified educational expenses or \$500. For taxpayers who have income over \$35,000, the tax credit is limited to the lesser of the amount of qualified expenses or \$250.

It is assumed that these students will be in families that are distributed in the same manner as income tax returns with dependents. Based on Indiana Individual Income Tax Statistics, it is assumed that 41% of these students will be in families with income under \$35,000 and therefore eligible to take the higher level of the tax credits. The analysis also assumes that expenditures will vary by income level and type of school enrollment. It is estimated that this tax credit will result in a revenue loss of \$12 M in FY 2000 and \$13.3 M in FY 2001.

*Professional Development Credit:* This bill provides an income tax credit for primary and secondary classroom teachers who incur a qualified professional development expense. This credit is restricted to individuals who are employed in a public or accredited nonpublic school and provide at least four hours of direct student instruction. The Department of Education is to establish criteria and programs which would be eligible for this credit. The credit is equal to the lesser of the 50% of the taxpayer's qualified expense or \$250.

According to DOE there are approximately 60,492 public and nonpublic school teachers. It is unknown how many of these teachers would have qualifying expenses which would be eligible for this credit. However out of the current number of full time teachers there are approximately 20,000 teachers who do not have a master's degree. If these teachers do not hold a life licence, they could potentially be required to take college courses in order to renew their licence. Assuming that approximately a third of these teachers would take a college course which may qualify for this credit, this tax credit could result in a revenue loss of approximately \$1.7 M in FY 2000 and \$1.8 M in FY 2001. As more teachers become aware of this credit and this credit creates an incentive for more teachers to make qualified professional development expenses, the revenue loss could potentially grow to approximately \$3.3 M annually.

These tax credits are refundable and applied to tax years beginning January 1, 1999.

These tax credits are estimated to reduce individual income tax revenue by approximately \$70.2 M in FY 2000 and \$71.8 M in FY 2001. Individual income tax revenue is deposited in the General Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of Education; Department of Revenue.

**Local Agencies Affected:**

**Information Sources:** Department of Education; Department of Revenue; Professional Licencing Agency.